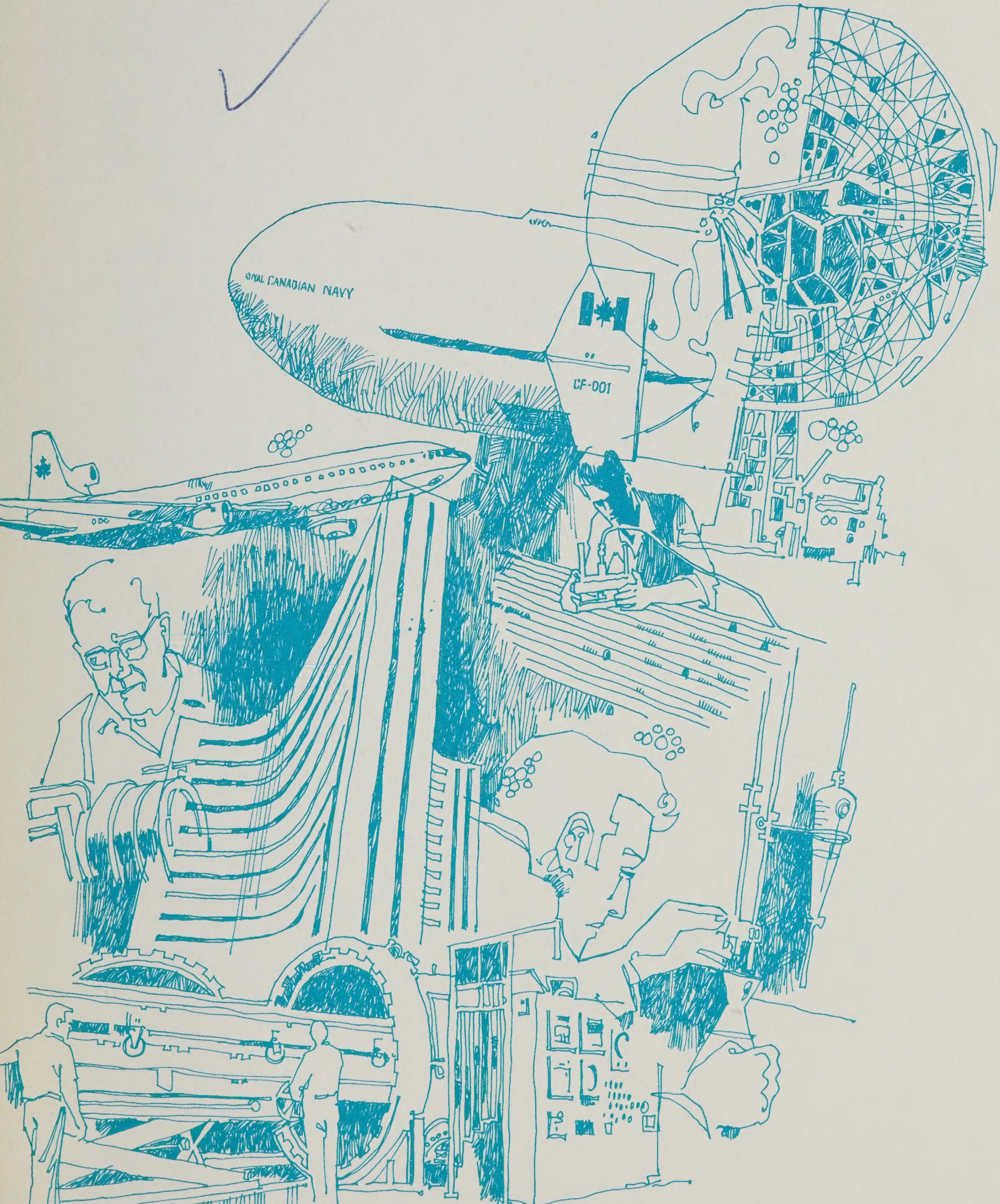
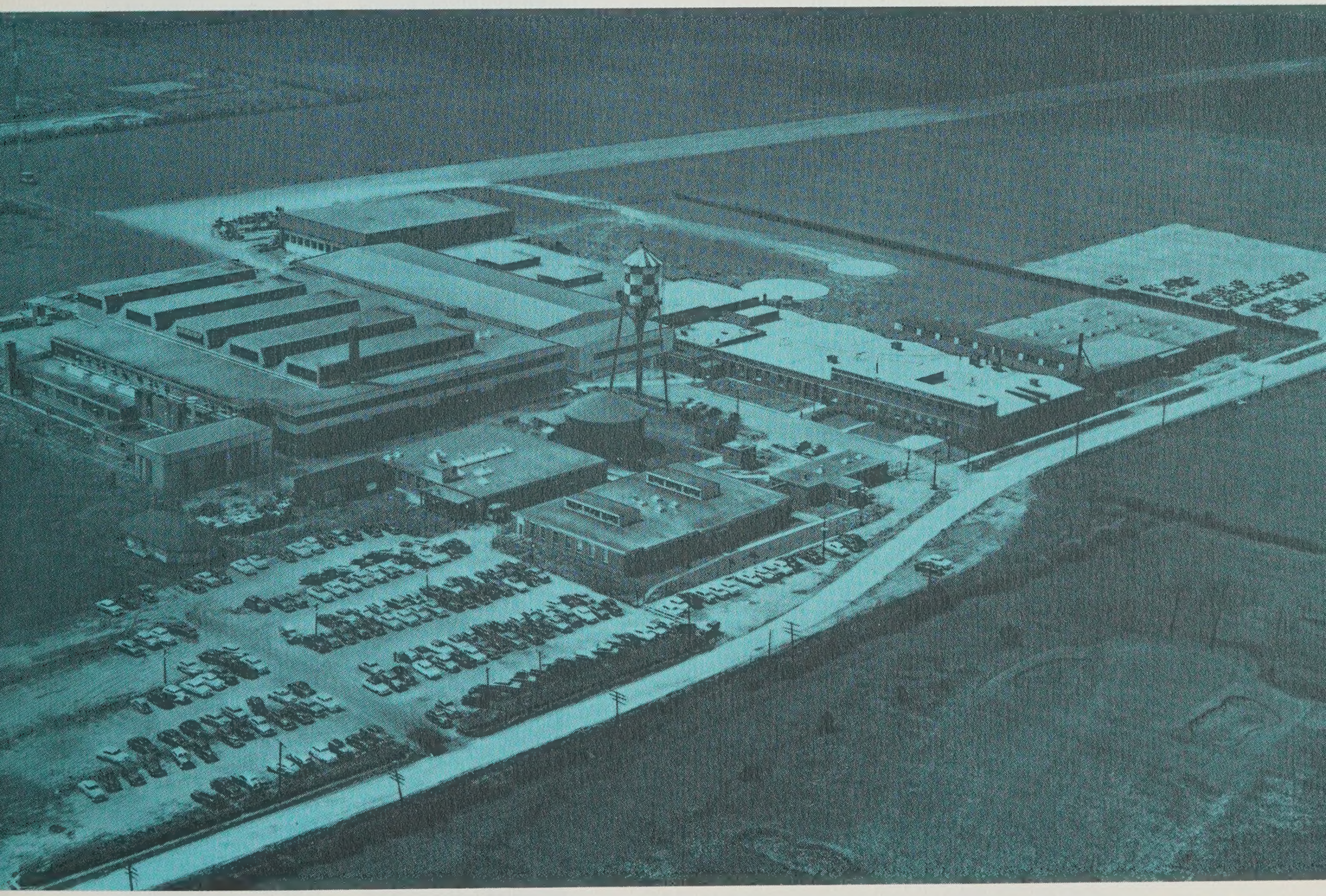
FLEET manufacturing limited, Fort Erie, Ontario, Canada

ANNUAL REPORT · 1969



ANNUAL REPORT for the year ended June 30, 1969



DIRECTORS

Ronald K. Fraser
President and Chief Executive Officer
Fleet Manufacturing Limited, Fort Erie
Ronark Developments Limited, Hamilton

Ralph C. C. Henson
Director
Standard Securities Limited, Toronto

Samuel Lax
President
Lax Iron & Steel Limited, Hamilton

C. Norman Lucas
President and General Manager
Dynamic Industries Inc., Quebec

D. Donald C. McGeachy
Consultant
Director and Past President
Calumet and Hecla of Canada Limited, London

G. Philip Morphy
Vice President Administration and
Corporate Development
Secretary

J. Frederick Taylor
Chairman and President
Computing Devices of Canada Limited, Ottawa

OFFICERS

Ronald K. Fraser
President and Chief Executive Officer

G. Philip Morphy
Vice President Administration and
Corporate Development
Secretary

James K. Oldreive
Director of Sales

Leonard Maloney
Director of Manufacturing

Roy Dear
Treasurer and Controller

AUDITORS

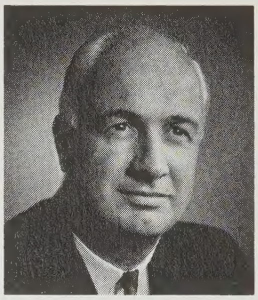
Clarkson, Gordon and Company
Hamilton, Ontario

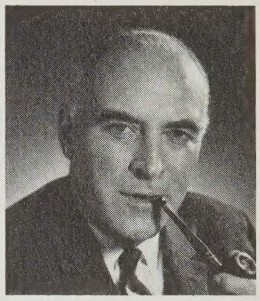
TRANSFER AGENTS

Guaranty Trust Company of Canada
Toronto, Ontario
Montreal, Quebec
Vancouver, British Columbia

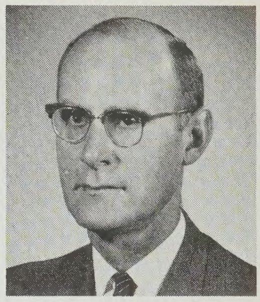
BANKERS

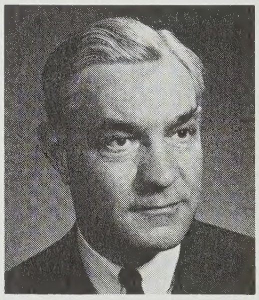
The Toronto-Dominion Bank
Queen Street and Ontario Avenue
Niagara Falls, Ontario

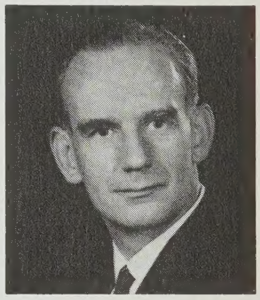

Ronald K. Fraser

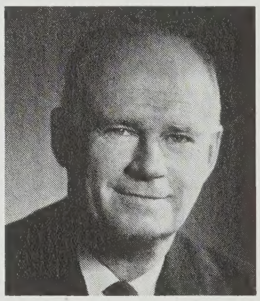

Ralph C. C. Henson

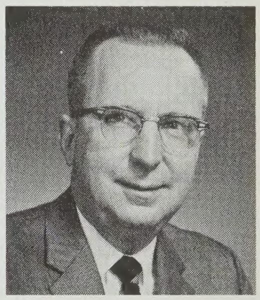

Samuel Lax

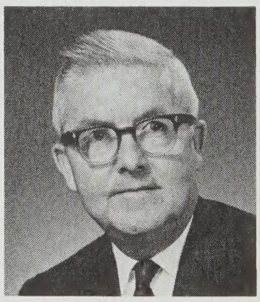

C. Norman Lucas

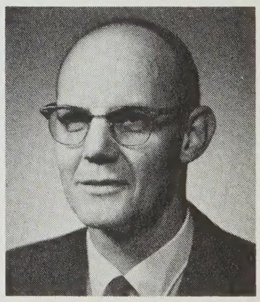

D. Donald C. McGeachy


G. Philip Morphy


J. Frederick Taylor


James K. Oldreive


Leonard Maloney


Roy Dear

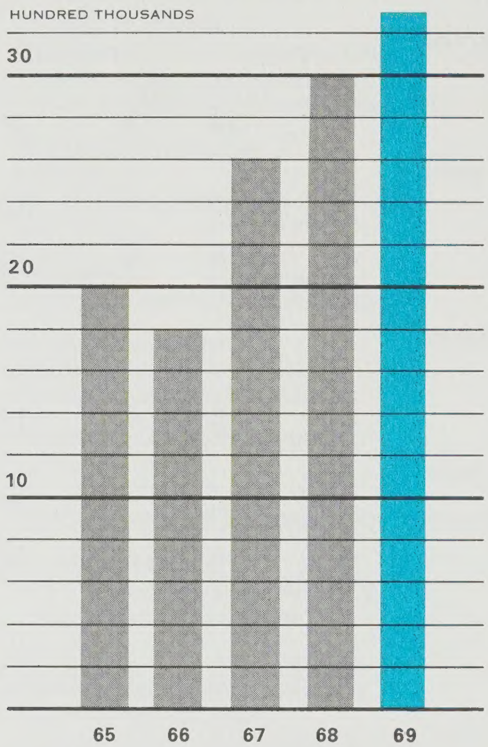
FINANCIAL HIGHLIGHTS

	1969	1968
EARNINGS PER COMMON SHARE		
(based on number of common shares outstanding at the year end):		
From operations	$ .13	$ .21
From tax savings through utilization of losses of prior years	.05	.01
Total earnings per common share	$ .18	$ .22
After giving effect to conversion privileges of the preferred shares—		
From operations	$ .12	$ .17
From tax savings through utilization of losses of prior years	.04	.01
Total earnings per common share	$ .16	$ .18
WORKING CAPITAL	$1,085,127	$1,580,221
NEW FACILITIES AND EQUIPMENT	$ 697,954	$ 249,133
LONG TERM DEBT	$ 391,247	$ 266,869
SHAREHOLDERS' EQUITY	$3,279,053	$2,996,146
BOOK VALUE PER COMMON SHARE AT YEAR-END:		
Before giving effect to conversion privileges of the preferred shares	$ 1.35	$ 1.19
After giving effect to conversion privileges of the preferred shares	$ 1.29	$ 1.15

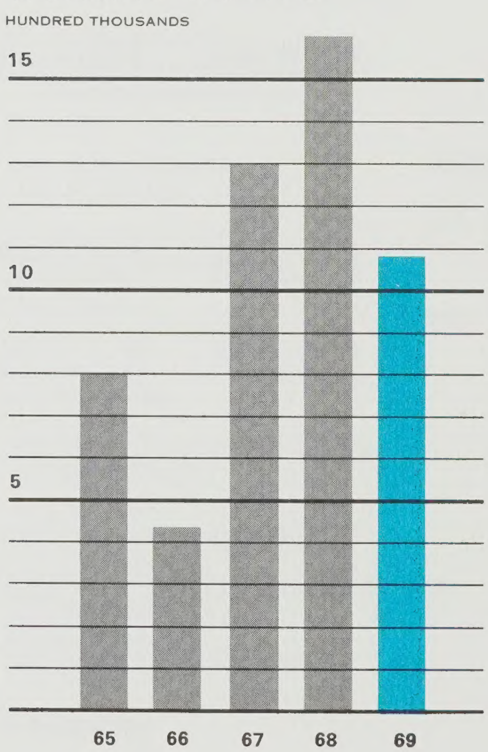
TO THE SHAREHOLDERS

Report for the year ended June 30, 1969

SHAREHOLDERS EQUITY



WORKING CAPITAL



As a result of decreased total sales and a reduction in plant acitvity, consolidated net income for the year was lower.

MANUFACTURING

Aerospace and defence schedules generally were on a declining basis. In addition, the Company absorbed the costs of a strike and considerable expense in contract negotiations on the Lockheed L1011 airbus.

Currently, Fleet has a contract to fabricate tooling and four ship sets of the L1011 Upper Aft Body. This contract is on a ceiling price basis, with firm fixed prices covering the 350 ship set program to be established in the next twelve months when engineering data and production problems have been clarified. In accordance with the original letter of intent, Lockheed has agreed to make available to Fleet, subject to pricing negotiations, two additional structures which, for reasons beyond Fleet's control, may not conform to the original definition.

de Havilland Aircraft of Canada Limited and Fleet have entered into negotiations, on a risk sharing basis, for the production of components for the new commercial C-7 48 passenger STOL aircraft. This successor to the de Havilland Twin Otter is designed for short haul traffic and, if it is put into production, will be significant for Fleet.

It is planned that the risk sharing programs with Lockheed and de Havilland will be financed with substantial support from the federal government under the General Adjustment Assistance Program. Negotiations have been proceeding satisfactorily and should be concluded before the end of the year.

Recently, a new contract with the office union was completed with a termination date of September 30, 1971, coinciding with the factory union agreement.

The order backlog at the year end was $8,391,000 compared with $9,632,000 for the preceding year. During the year, $697,954 was spent on capital additions, accounted for primarily by a new power plant, additional assembly area and numerically controlled milling machines. Both the federal and provincial governments are assisting substantially in the financing required.

The Defence Research Board is supporting research activity at Fleet in the bonding of metals and utilization of honeycomb structures. This research is being carried out jointly with the Institute of Aerospace Studies, University of Toronto. McMaster University in Hamilton is assisting in the investigation of carbon filament composite materials for airframe components as a subject appropriate for a long term study. Our engineering department has also

produced for General Electric Company of Syracuse, a successful design for a folded cone radar antenna, and the prospects for a prototype contract appear favourable.

While the outlook for aerospace and defence sales continues unsettled as a result of the high cost of money, tightened military budgets and general economic conditions, the prospects for future growth look promising. For this reason, Fleet is continuing to update its facilities, mangement and skills.

The search for fields in which the technical competence at Fleet, Fort Erie can be utilized continues. At the present time, two new concepts in material handling are under investigation.

REAL ESTATE

During the year, the extreme scarcity of mortgage funds restricted severely the development of corporate assets. Contract activity also declined but, currently, work is underway on 534 housing units in London, Sarnia and Perth compared to 326 units at the corresponding time in the previous year. The sale of 44.5 acres in Cherry Heights was completed and, since the year end, a satisfactory offer from Manufacturers Life Insurance Company for the remaining 69 townhouse units in Georgian Court Estates Limited (a 50% owned affiliated company) has been accepted with a closing scheduled for October 31, 1969.

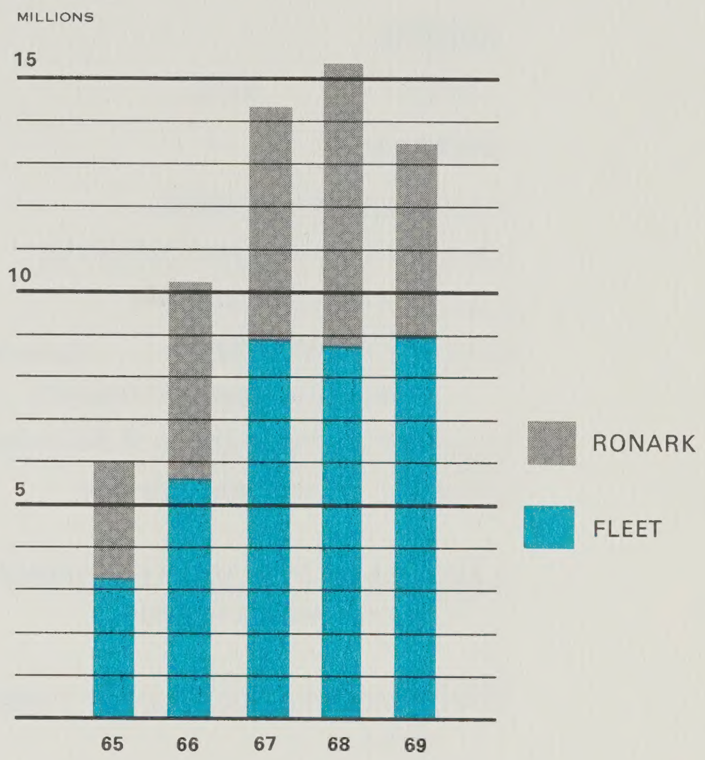
The backlog of contract construction, supported by letters of intent and/or signed contracts, now is in excess of $10,000,000 and it is anticipated that work on all contracts will be started early in 1970. In addition, proposals to Ontario Housing Corporation involving 701 units in Hamilton and St. Catharines have been submitted for consideration.

In order to develop serviced land now in inventory, Ronark is investigating the use of condominium legislation, the reactivated Limited Dividend Section of the National Housing Act and mortgage debt financing with lender participation in the equity. While the current housing situation is critical, principally because of escalating costs and shortage of funds, the future would seem to have greater promise than at any time in recent years.

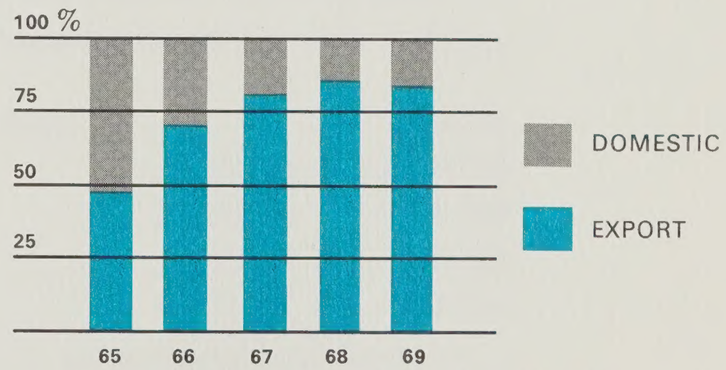
The employees of Fleet and Ronark, in this difficult period, have proven their competence and resourcefulness, and management and the Board of Directors wish to extend their thanks and appreciation.

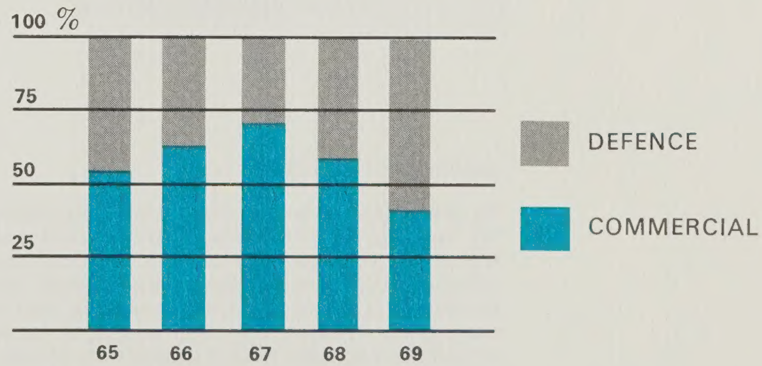
R. K. Fraser
President

SALES



ANALYSIS OF SALES





FLEET manufacturing limited

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

June 30, 1969

(with comparative figures for 1968)

ASSETS

	1969	1968
CURRENT:		
Accounts receivable	$1,716,448	$2,023,764
Due from affiliated companies	113,910	610,509
Special refundable tax	23,512	
Inventories (note 3)	2,474,247	3,046,724
Prepaid expenses and deposits	90,882	87,544
Cash surrender value of life insurance	43,660	41,800
Total current assets	4,462,659	5,810,341
LAND HELD FOR DEVELOPMENT — at the lower of cost and net realizable value	23,332	269,170
INVESTMENTS AND LONG TERM RECEIVABLES (note 4)	1,394,408	725,579
FIXED — at cost (note 5):		
Land, buildings, machinery and equipment	3,321,166	2,705,995
Less accumulated depreciation	1,957,733	1,812,462
	1,363,433	893,533
OTHER:		
Special refundable tax		23,512
	$7,243,832	$7,722,135

On behalf of the Board:
RONALD K. FRASER, Director
G. PHILIP MORPHY, Director

AUDITORS' REPORT

To the Shareholders of Fleet Manufacturing Limited:
We have examined the consolidated balance sheet of Fleet Manufacturing Limited as at June 30, 1969 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in basis for recording income of affiliated companies referred to in note (1) to the financial statements with which we concur.

Hamilton, Canada,
October 1, 1969.

Clarkson, Gordon & Co.
Chartered Accountants.

LIABILITIES

	1969	1968
CURRENT:		
Bank indebtedness (note 6)	**$1,495,545**	$1,583,311
Accounts payable and accrued charges	**1,342,555**	1,868,947
Income and other taxes payable	**311,703**	294,650
Liability to service land sold or held for resale (estimated)	**120,829**	476,312
Demand note — payable to affiliated company, 6%	**100,000**	
Current instalments on long term debt (note 7)	**6,900**	6,900
Total current liabilities	**3,377,532**	4,230,120
DEFERRED INCOME TAXES	**196,000**	229,000
LONG TERM DEBT (note 7)	**391,247**	266,869
SHAREHOLDERS' EQUITY:		
Capital stock (note 8) — 6% cumulative redeemable convertible preference shares with a par value of $10 each: Authorized and issued — 48,351 shares (60,000 in 1968)	**483,510**	600,000
Common shares without nominal or par value: Authorized — 5,000,000 shares, of which 2,037,490 shares (1,921,000 in 1968) are issued	**1,757,084**	1,640,594
	2,240,594	2,240,594
Retained earnings	**1,038,459**	755,552
	3,279,053	2,996,146
	$7,243,832	$7,722,135

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1969

(1) **Basis of consolidation—**

The consolidated financial statements include the accounts of all wholly-owned subsidiaries. The investments in affiliat companies which are owned to the extent of 50% by Ronark Developments Limited are not consolidated but are included the balance sheet at cost plus undistributed net earnings since acquisition.

In previous years the financial statements included the value of the investment in the affiliated companies at cost which w less than estimated realizable value. For 1969, income includes $48,944 representing the company's portion of net earnin of the affiliated companies. The net results of operations in these affiliated companies to June 30, 1968 were relative immaterial in amount.

(2) **Accounting basis for determination of income—**

Gross profit on contracts is recorded as follows:

(a) On contracts extending beyond one year billable at a fixed price per unit, the proportion of total estimated gross pro for the entire contract applicable to the number of units shipped.

(b) On other contracts billable at a fixed price per unit, the actual gross profit applicable to units shipped.

(c) Other contracts on the percentage of completion method.

Where it is expected that a loss will be incurred on completion, provision is made for the total estimated loss. In the case contracts extending beyond one year, revisions in cost and profit estimates (which can be significant) are reflected in t accounting period in which the relevant facts become known.

(3) **Inventories—**

Inventories are valued at the lower of cost and net realizable value and consist of the following:

	1969	1968
Manufacturing:		
Work in progress (after deducting progress payments of $163,694 in 1969 and $312,474 in 1968)	$1,258,499	$1,479,28
Raw materials and supplies	418,933	588,78
	1,677,432	2,068,06
Real estate group:		
Work in progress (after deducting deposits from customers and advances under mortgage commitments of $7,035 in 1969 and $13,204 in 1968)	110,067	132,03
Land for resale—		
Serviced	682,138	842,05
Unserviced	4,610	4,56
	796,815	978,65
	$2,474,247	$3,046,72

(4) **Investments and long term receivables—**

This consists of the following:

	1969	1968
Investment in affiliated companies— In 1969 at cost plus undistributed net earnings since acquisition In 1968 at cost (which is less than estimated realizable value)	$ 387,694	$ 338,75
Amounts due on land sales—		
(a) First mortgage on approximately 54 acres of land, bearing interest at 6% per annum and repayable at the rate of $12,000 per acre as lands are sold, due June 30, 1971	297,364	392,28
(b) First mortgage on 16 lots of land, bearing interest at 7¾% per annum and repayable at the rate of $7,200 per lot as lots are sold, due November 30, 1970	115,100	
(c) First mortgage on 20 lots of land, bearing interest at 7¾% per annum and repayable at the rate of $7,700 per lot as lots are sold, due May 30, 1971	154,000	
(d) First mortgage on approximately 45 acres of land, bearing interest at 3% for the first year, 5% for the second year and 7½% for the remainder of the term and repayable at the rate of $100,000 on April 15 for the years 1971 to 1973 inclusive and the balance on April 15, 1974. Partial discharge may be obtained upon payment of $15,000 per acre or $3,300 per lot	391,700	
Irrevocable bank letter of credit bearing interest at 6% due $25,000 annually with the remaining $30,000 due May 15, 1970	30,000	55,00
Residential mortgages receivable	48,550	64,54
	1,424.408	850,57
Less instalments included in current accounts receivable	30,000	125,00
	$1,394,408	$ 725,57

(5) Fixed assets—

Fixed assets consist of the following:

	1969 Cost	1969 Accumulated depreciation	1969 Net book value	1968 Net book value
Manufacturing:				
Land (approximately 162 acres in Fort Erie)	$ 43,693		$ 43,693	$ 43,693
Buildings	1,093,707	$ 551,893	541,814	297,384
Machinery and equipment	2,029,414	1,314,859	714,555	473,645
	3,166,814	1,866,752	1,300,062	814,722
Real estate group:				
Furniture, fixtures, equipment and leasehold improvements	154,352	90,981	63,371	78,811
	$3,321,166	$1,957,733	$1,363,433	$893,533

Depreciation is computed as follows:

On diminishing balance—Buildings	5% or 10%
Machinery, furniture and equipment	20% or 30%
Automobiles	30%
On straight-line basis—Leasehold improvements	10%

During the year the company received $220,662 as a federal government grant to assist in the acquisition of equipment. In the accounts this amount has been applied to reduce the cost of fixed assets.

(6) Bank indebtedness—

Accounts receivable, inventories and shares of affiliated companies have been pledged to the companies' bankers as collateral for the bank indebtedness.

(7) Long term debt—

This consists of the following:

	1969	1968
Manufacturing—		
Fleet Manufacturing Limited:		
6% chattel mortgage repayable in equal annual instalments of $6,900 on October 1, 1969 and 1970	$13,800	$ 20,700
Conditional sale contract due July 1, 1970	13,685	28,069
Repayable portion of non-interest bearing federal government assistance payments received to date. Amounts due in five equal annual instalments July 2, 1970 to 1974 inclusive	220,662	
	248,147	48,769
Real estate group—		
Grisenthwaite Construction Company Limited:		
7% debentures due December 31, 1970	150,000	150,000
W. Grisenthwaite Developments Limited:		
7% debentures due December 31, 1969		75,000
	150,000	225,000
	398,147	273,769
Less instalments due within one year shown as a current liability	6,900	6,900
	$391,247	$266,869

The 7% debentures in the real estate group are subordinated to bank indebtedness.

(8) Capital stock

(a) During the year 11,649 6% preference shares were converted into 116,490 common shares in accordance with the provisions of the supplementary letters patent issued December 28, 1962. The remaining issued 48,351 6% preference shares are convertible into common shares up to December 31, 1972 and accordingly 483,510 common shares are reserved for such possible conversion.

(b) No provision has been made in the accounts as at June 30, 1969 for arrears of cumulative dividends on preference shares, $34,831. Subsequent to the year-end, dividends were declared and paid to eliminate these arrears.

(9) Retirement plans—

Total unamortized past service costs under retirement plans of the companies at June 30, 1969, as estimated by independent actuaries, amounted to $460,000. These costs, which are not included in the accompanying financial statements, are being amortized and charged to operations over the period to 1989.

(10) Authorized expenditures—

The directors have authorized capital expenditures of approximately $855,000 of which $296,500 will be financed by government grants and a further $464,000 will be financed by long term government loans.

(11) Guarantee—

The company has guaranteed the repayment and performance of the covenants contained in a mortgage given by an affiliated company in the amount of $150,000. This guarantee is effective until May 31, 1974.

(12) Statutory information—

The aggregate direct remuneration paid or payable by the company and its consolidated subsidiaries to the directors and senior officers of the company amounted to $168,000 for the year.

FLEET manufacturing limited

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended June 30, 1969
(with comparative figures for 1968)

		1969		1968
Sales:				
Manufacturing		$ 8,996,045		$ 8,700,556
Real estate group		4,487,265		6,475,666
		$13,483,310		$15,176,222
Income from operations before the following		$ 789,431		$ 1,109,282
Depreciation	228,054		163,052	
Interest and discount on funded debt	17,042		26,299	
Directors' fees	7,372	252,468	5,950	195,301
Income before taxes		536,963		913,981
Income taxes:				
Current		322,000		537,000
Deferred		(33,000)		(53,000)
		289,000		484,000
Income before profit of affiliated companies and extraordinary item		247,963		429,981
Profit for year of affiliated companies (note 1)		48,944		
		296,907		429,981
Extraordinary item:				
Reduction in income taxes on application of losses of prior years		94,000		34,000
Net income for year		390,907		463,981
Retained earnings at beginning of year		755,552		327,571
		1,146,459		791,552
Deduct dividends paid on preference shares		108,000		36,000
Retained earnings at end of year		$ 1,038,459		$ 755,552

FLEET manufacturing limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year Ended June 30, 1969
(with comparative figures for 1968)

	1969	1968
SOURCE OF FUNDS:		
Operations—		
Net income for year	$ 390,907	$ 463,981
Depreciation	228,054	163,052
Deferred income taxes	(33,000)	(53,000)
Other charges not requiring an outlay of funds		1,067
	585,961	575,100
Increase in long term debt	124,378	
Reduction in long term receivables		123,869
Reduction in land for development	245,838	
	956,177	698,969
APPLICATION OF FUNDS:		
New facilities and equipment (net)	697,954	249,133
Additions to land for development		12,958
Increase in investments and long term receivables	668,829	
Reduction in long term debt		96,284
Dividends paid	108,000	36,000
Special refundable tax	(23,512)	(188)
	1,451,271	394,187
INCREASE (REDUCTION) IN WORKING CAPITAL	(495,094)	304,782
WORKING CAPITAL BEGINNING OF YEAR	1,580,221	1,275,439
WORKING CAPITAL END OF YEAR	$1,085,127	$1,580,221

OFFICERS

HEAD OFFICE—20 Hughson Street South, Hamilton

Ronald K. Fraser
President and Chief Executive Officer

Donald G. MacDonald
Executive Vice President

William J. C. Mitchell
Vice President—Eastern Division

Frank T. Wilkinson
Vice President—Land Development

William C. Hesler
Treasurer

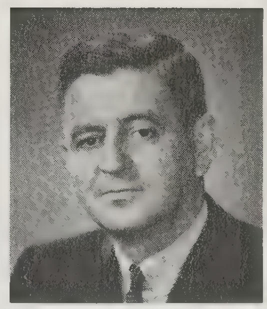
E. Delbert Hickey
Secretary

LONDON OFFICE—609 William Street, London

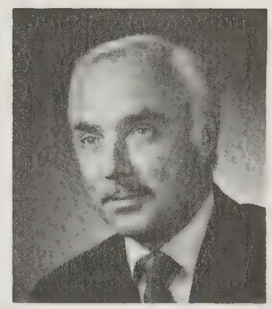
Donald G. Ness
Vice President—Western Division

OTTAWA OFFICE—1515 Baseline Road, Ottawa

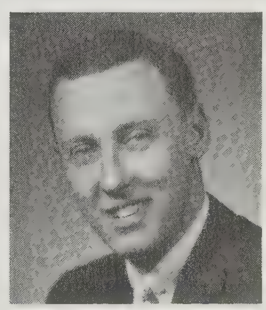
A. Banfield Taylor
Vice President



Donald G. MacDonald

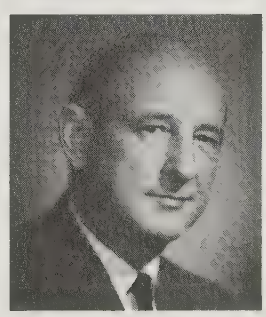


William J. C. Mitchell

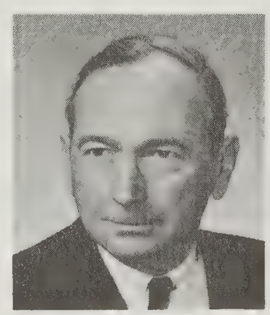


Frank T. Wilkinson

William C. Hesler



E. Delbert Hickey



Donald G. Ness

A. Banfield Taylor

Suppliers to:

AEROSPACE

de Havilland Aircraft of Canada Limited,
Toronto, Ontario
Douglas Aircraft Company of Canada Limited,
Toronto, Ontario
McDonnell Douglas Corporation,
Long Beach, California.
Grumman Aerospace Corporation,
Bethpage, New York.
Hughes Tool Company,
Aircraft Division, Culver City, California.
Lockheed-California Company,
Division of Lockheed Aircraft Corporation,
Burbank, California.

SONAR

Department of Supply and Services
Government of Canada
Edo Corporation
College Point, New York.
General Electric Company,
Syracuse, New York.

RADAR

Department of Transport,
Government of Canada
General Electric Company,
Syracuse, New York.
Westinghouse Electric Corporation,
Defence and Space Centre, Baltimore, Maryland.

FLEET
manufacturing limited
Fort Erie, Ontario, Canada

AR10

TO THE SHAREHOLDERS:

The decrease in consolidated net income is attributable mainly to reduced manufacturing activity at Fort Erie brought about by cutbacks in both commercial and military programs. The order backlog at December 31, 1969 amounted to $6,963,000 compared to $7,859,000 a year ago.

Bids are being prepared on four additional components on the Lockheed 1011 airbus. We are also hopeful that work can be obtained on the McDonnell Douglas DC 10 airbus to replace, at least in part, the declining rate of production on the DC 9.

de Havilland Aircraft of Canada Limited have not yet been able to release the DHC 7 to production, but recently, additional support from the federal government for this program has been announced.

Sonar and radar work is holding up well and the prospects of securing an order for a complete sonar system from one of the NATO nations is promising.

In order to remain competitive, continuous cutbacks of overhead expense are being implemented. However, the general economic climate throughout the aerospace industry is not encouraging.

The search for diversification is being intensified but there is, as yet, nothing of a positive nature to report.

Ronark Developments Limited, the wholly-owned real estate subsidiary, has been successful in accumulating the largest contract backlog in its history. There are now signed contracts or letters of intent with Ontario Housing Corporation for 1,400 housing units in Hamilton, London and St. Catharines having a value in excess of $15,000,000. It is expected that work will commence on all projects early this spring.

Tight money continued to restrict the sale or development of land owned by Ronark and its 50% owned affiliates, Georgian Court Estates Limited in Burlington and Amesbrooke Investments Limited in Ottawa. The only sale completed was the remaining 69 townhouse units in Georgian Court Estates to Manufacturers Life Insurance Company.

At the present time, low rental and condominium developments are in the advanced planning stage, and negotiations for financing are underway with major lending agencies. Ronark, with its affiliated companies, has an inventory of serviced and zoned land providing for 1800 housing units which could make a substantial contribution to future results.

R. K. FRASER, President

February 20, 1970

A french translation is available on request.

INTERIM REPORT

December 31, 1969

FLEET
manufacturing limited
Fort Erie Ontario

FLEET manufacturing limited

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

(unaudited)

	Six months ended December 31,	
	1969	1968
Sales:		
Manufacturing	**$3,174,960**	$4,185,162
Real Estate	**2,360,826**	2,561,581
	$5,535,786	$6,746,743
Income before taxes	**$ 127,029**	$ 310,447
Income taxes	**55,000**	110,000
Net income	**72,029**	200,447
Earnings per common share	**3¢**	9¢
Earnings per common share after giving effect to conversion privileges of the preferred shares	**2¢**	7¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(unaudited)

	Six months ended December 31,	
	1969	1968
SOURCE OF FUNDS:		
Net income for half year	**$ 72,029**	$ 200,447
Depreciation and other items not affecting working capital	**83,122**	46,603
	155,151	247,050
Reduction in long term receivables	**127,796**	
	282,947	247,050
APPLICATION OF FUNDS:		
New facilities and equipment (net)	**56,098**	213,701
Increase in long term receivables		128,855
Reduction in long term debt	**104,395**	21,300
Additions to land for development		1,960
Dividends paid on preferred shares	**34,828**	54,000
Increased investment in 50%-owned affiliated companies (represented by undisturbed current earnings)	**25,889**	48,127
	221,210	467,943
INCREASE OR (REDUCTION) IN WORKING CAPITAL	**61,737**	(220,893)
WORKING CAPITAL AT BEGINNING OF YEAR	**1,085,127**	1,580,221
WORKING CAPITAL AT END OF HALF YEAR	**$1,146,864**	$1,359,328